1915

U. S. SECURITIES GOVERNMENT FINANCE AND FEDERAL RESERVE SYSTEM

NEW YORK, MARCH, 1915.

Sterling Exchange.

THE most notable development of the past month in financial affairs was the decline of London Exchange in New York to the lowest point ever known, $4.79 to the pound sterling. The number of grains of gold in the sovereign, or pound sterling, makes it equivalent in value to $4.8665 in the gold coinage of the United States. English coin, full weight, theoretically can be shipped to New York, deposited at the United States Assay Office and that rate realized; hence under normal conditions, where the pound sterling is rated lower than about $4.84¼, which allows for ordinary shipping costs, gold will begin to move from London to New York. Present conditions, however, are abnormal. London owes New York; the exchange rates are proof of that; but shipping conditions are such that the cost including insurance, of moving gold across the Atlantic is prohibitive. It is true that the Bank of England has a considerable stock of gold at Ottawa, most of it sent there from New York a few months ago, and it might release some of that store. But it is not eager to give up gold, and while it is required by law, unless relieved by the Ministry, to redeem its notes over its counter in London, it is not required to redeem them at Ottawa. It was not obliged, on the other hand, to receive gold at Ottawa, last fall, in lieu of payments in London, but it agreed to do so at the rate of $4.90 to the pound sterling. This was a high rate for American debtors to pay, but shipping conditions made it cheaper than forwarding gold to London. The Bank has released several millions from Ottawa at a rate reported to be 77 shillings 3 pence per ounce for eagles, which would be $4.8137 to the pound sterling. This is an extraordinary spread in exchange rates, but all conditions are extraordinary at this time, and the later decline in sterling below $4.81 shows that the Bank does not care to part with its gold even on that basis.

This policy is unquestionably approved if not directed by the British government, for, while the government through the bank has been endeavoring to render every possible service to British trade, the gold reserve is a vital factor in the national credit and will be safeguarded so far as practicable. Gold to all the belligerents is as important as munitions of war and even the neutrals deem it advisable to safeguard their supply.

Effect of Low Sterling Exchange.

An exchange rate on London of $4.80 or thereabouts means that the pound sterling doesn't go as far as usual in settling dollar debts. The English buyer of cotton or wheat in our markets must give more sterling to make up a given sum in dollars. The situation is reversed from what it was last fall, when the balance of payments was against us and dollars were under-rated. The present situation is one which we can view, naturally, with comparative equanimity, but next to a business man's anxiety about how to pay his own debts comes the anxiety about how other people are to pay him and continue to buy of him. The low rate for the pound sterling makes our commodities cost more to English buyers and to all buyers who must make payments through London, without any compensating advantage to us. It is equivalent to a tax on commerce and amounts to an obstruction between us and our customers. It is not a very large percentage as yet, about one cent on the dollar, but with trade balances piling up as they have been in the last three months it will be larger soon unless some means are found to effect settlements.

The Increasing Credit Balance.

How large will this credit balance become? The course of foreign trade is now heavily in favor of the United States. In August last there was a balance against us of $19,400,396, but since then there have been monthly balances in our favor as follows: September, $16,341,722; October, $57,305,074; November, $79,299,417; December, $131,863,077; January, $145,536,103. For the first three weeks of February the balance as estimated upon returns from the thirteen principal customs districts was about $98,000,000, showing approximately the same rate as in January. Breadstuffs and cotton are the two highest items in the exports. Enough wheat has been purchased on foreign account to load all the available vessels for at least another month, and wheat shipments probably will not fall off before May. Indeed it is doubtful if they will fall off at all so long as wheat can be had; for there is much anxiety abroad about the food supply, and if new crop conditions here are favorable in the spring, our holders will be likely to sweep the bins. The winter wheat acreage in this country is 4,000,000 acres above the largest previously sown and the crop has so far wintered in good shape. The spring wheat acreage will be increased if weather condi-

tions allow. Breadstuffs figured in December exports at $57,000,000, and cotton was the second item at $48,000,000; in January breadstuffs amounted to $55,000,000 and cotton to $59,000,000. Cotton, however, cannot hold this pace, and it is here that the most serious decline may come. On the other hand, the cotton exports may be larger next fall than they were last fall. War orders for equipment and supplies are on a large scale and may be expected to continue. General export trade to neutrals should gradually improve. Our imports are likely to continue low. The countries involved in war are not in position to send us manufactures, but as our industries revive there may be an increase in importations of materials.

In the last half of the year much will depend on the crops and whether or not the Dardannelles are open, allowing Russian grain to come out. Recent reports indicate that the allies are addressing themselves vigorously to this purpose, and it is very important both to Russia and England. If the straits are opened by midsummer, there will be a great change in the wheat situation, for with the usual German demand cut off, supplies will be ample for the other importing countries, and prices much lower. On the other hand, unless the Russian grain is available there will be need for all our next wheat crop.

With a favorable trade balance of $400,000,000 in the three months just past, a total above $1,000,000,000 is to be expected for the calendar year, and $100,000,000 per month is not improbable.

Invisible Factors in the Balance of Trade

Against this must be set over the invisible offsets about which there has always been much difference of opinion, viz: the expenditures of Americans abroad, freight and insurance charges on our imports, remittances by friends, funds carried by emigrants or returning foreigners, and returns upon foreign investments in this country. The expenditures of American travelers abroad in 1915 will be very small, perhaps offset by foreigners traveling or living in the United States. Funds carried out by emigrants and returning foreigners may be dismissed in the same way. Remittances by friends, relatives and transient laborers is a large item in ordinary times, and has been placed by some writers as high as $250,000,000 in a year. This seems very high, and is unquestionably much too high for a year like this when the number of transient laborers is greatly reduced, and much unemployment exists. Post office orders in other years have run as high as $75,000,000, but much of this was forwarded for deposit in postal savings by the transient class. The item of freight and insurance charges on imports was discussed by Sir George Paish in a paper written in 1909 for the National Monetary Commission. He calculated that on the basis of our imports in the fiscal year 1907-8, allowing for the earnings of our own shipping in the export trade, the expenditures of foreign shipping in American ports and for the net income of American life insurance companies on foreign business, the balance against the United States on this account was not above $25,000,000. This is considerably below other estimates that have been made, but as the amount of American shipping has been increased and this will be a light year for imports, the figures are probably high enough for this calculation.

The main item in our accruing indebtedness this year will be interest and dividends on foreign investments in this country. Usually this factor is scarcely observable because such earnings are either re-invested or replaced by other foreign capital, but this year there is much reason to expect that foreigners will withdraw income for use elsewhere. This is true also of maturing principal upon short loans, railway notes, etc. If our indebtedness abroad is taken at $6,000,000,000, which is probably full high enough in view of the amount of securities returned since 1912, and the average return is taken at five per cent, the accruing income would be $300,000,000, from which a deduction of $50,000,000 may be made for returns on American capital employed abroad.

When so many elements are unsettled, any attempt to forecast the future must necessarily be in very broad terms, but this rough survey suggests offsets on current account of $500,000,000 or $600,000,000, which would give a net balance in favor of the United States for the year, above all offsets, of $500,000,000 to $800,000,000. This allows for the liquidation of floating indebtedness but makes no allowance for the return of securities.

It will be recalled that about September 1st last the Federal Reserve Board made an attempt to learn the aggregate amount of our obligations falling due abroad between that date and January 1st. It was understood that the figures footed up something like $400,000,000. A portion of this was paid by gold exports and some portion was extended, but extensions and reinvestments have been as rare probably as they are likely to be in the months to come. Those obligations, and the payments coming on since January 1st have, however, been disposed of, and considerable purchases of securities have been made, and withal a net credit balance has been created in our favor. All of this indicates that the above calculation is conservative.

How Will These Balances be Settled?

Of course, all of these balances are not Great Britain's to pay. They are the net balances on our trade with the world, but in the past they have been settled for the most part through London as the clearing and banking center, and it was in this sense that the United States owed so much to London last fall. At this time even more than in ordinary times it is necessary that payments shall be made by offsets and through a clearing center, and the disorganized state of the money exchanges is causing a great falling off in the world's trade. To what extent we shall be able to settle with other countries directly and by developing New York as a clearing center, remains to be seen. A high exchange rate for dollars through London will promote such development, but the growth of New York as a clearing and banking center will depend upon its ability to render precisely the services that are called for at this time, that is to say, finance the exchanges by lending capital wherever it is needed to keep

trade going. The trade balances that are indicated certainly cannot be collected in gold, and apparently cannot be collected in goods, even if we wanted payment in either of these ways. There is only one way in which payments can be had, and that is in securities. The only practical question for consideration is as to what securities shall be accepted.

The Chancellor of the Exchequer a few days ago stated that England could pay the expenses of the war for five years from the proceeds of her foreign investments. No doubt that indicates the government's theory of how the war should be financed, but it is not clear how the government will induce individuals to sell their foreign holdings, unless there is a readjustment of rates or market values which will make the government issues more attractive from an income standpoint.

The exchange situation may be handled temporarily by means of short loans in this market, but the final settlement, apparently, must be made by the transfer of securities.

In the shifting of securities that is bound to take place some of the English holdings of Argentine and Canadian issues may be transferred to this country if a market for them can be found here. Their purchase, instead of new issues of British war bonds, would avoid all of the criticism that might be directed against a purchase of the latter as an unneutral act. Moreover, it would bring us into more intimate relations with these growing countries, and have a tendency to help our own trade with them. Mr. Hartley Withers, a well-known English writer upon finance, in his new book, published in December, says that New York has had the chance of a life-time and missed it, referring to the opportunity for stepping into London's place in financing the new countries. The opportunity to finance these countries has by no means passed, but the extent to which it can be improved depends upon the willingness of the American public to make these outside investments and give attention to the operation of enterprises in these countries. Bankers can negotiate the loans, but they will not be able to carry the policy far unless the buying power of the public is behind them.

The Other Exchanges.

Exchange rates with other countries are even more demoralized than with England, due to a greater interruption of trade, and the same obstacles to the transfer of gold. The Reichsbank has made transfers to Copenhagen and Amsterdam for the purpose of sustaining the value of the mark, and the Russian government, before the port of Archangel closed, sent $40,000,000 to London. It is reported that one of the subjects discussed by the three ministers of finance at Paris recently was that of moving gold as soon as practicable from both Paris and Petrograd to London. One important source of strength to the Bank of England in dealing with this problem of the exchanges is the fact that more than one-half of the current gold production of the world is under the British flag and enters directly into the reserves which the Bank has established in South Africa, Australia and Canada.

Financial Conditions At Home.

The secure position in which we seem to be established as a creditor nation on current account is the most important factor in the home situation. As already indicated we have reached the situation where instead of being concerned lest our securities may be returned too fast we are beginning to be concerned because they do not come fast enough to keep the exchanges in normal condition. The short foreign loans that are being made here are the same as gold in the reserves as protection against any foreign liquidation of our securities that may develop as the war progresses. The credits of this class that have been given in no sense represent capital withheld from home use, for if they were not taken it would be necessary that reserves in this country should be correspondingly stronger. They are an outer line of defense which must be passed before a foreign demand can reach our store of gold, and considering the surplus reserves of the national banks and the reserves and note-issuing power of the Federal Reserve banks, the situation is now so strong that an enforced contraction of credit seems to be beyond the possibilities. This assurance in itself is a great boon to the business community.

The abstract of the reports of the National banks for December 31, 1914, shows loans at that date $172,231,548 above the loans on January 13, 1914, and lawful money $318,000,000 less, the loss in cash being due in the main to the payments into the Federal Reserve banks. The Comptroller's office calculates the excess reserve for all the banks at $559,913,961, being an increase in the excess reserve over that shown by the report of October 31, 1914, of $443,444,511. This increase was due to the change in reserve requirements.

Notwithstanding the generally favorable conditions the investment market has been a little slower in the last half of February than it had been since the first of the year, a fact due possibly to the rather depressing daily news about our international relations. Nobody really thinks the United States will be drawn into the war, but it is realized that situations might develop that would be very embarrassing because it would be impossible to show whether they were due to accident or design.

An issue of $49,000,000 of 4½ per cent refunding bonds for the Pennsylvania railroad was over-subscribed several times. The directors of the New York Central Company have taken the first steps toward the issue of $100,000,000 of debenture bonds, drawing six per cent. interest and carrying the privilege of later conversion into stock, and the underwriting is complete. In the case of both of these issues the proceeds will be used to clean up temporary indebtedness, and provide for no new expenditures.

A large amount of Canadian financing has been done in the United States since the first of the year, for the most part on behalf of the provinces and municipalities although traction and industrial companies have been represented. The total of Canadian issues has been in the neighborhood of $75,000,000, which is about up to rate of Canadian borrowings in London before the war.

There is a ready market for good municipal

bonds and a strong demand for railroad and other corporation note issues. An issue of $16,000,000 two-year notes of the Anaconda Copper Company on a 5.35 interest basis, offered by this bank, was sold out the first day, and there is abundant other evidence of capital awaiting investment. As yet, however, there is practically complete absence of financing for new undertakings.

Trade and Industry.

This is not the season of the year for trade to be very brisk or industry very active and no great change is noted in the business situation. Country roads are reported bad in many sections, which signifies moisture in the ground and is the first symptom of promise for the crops. Aside from the low price of cotton all the conditions bearing upon agriculture are in the farmers' favor. Grain, cattle, hogs, horses, mules, wool and even sugar and sugar beets have brought good prices, the war having saved wool and sugar from the effects of adverse tariff legislation.

Trade is not booming in any quarter; railroad traffic and bank clearings show that. The latter continue to fall under the corresponding weeks of last year by eight or ten per cent. Railroad earnings in December, the latest month for which full returns are available, were ten per cent below those of December, 1913. The retrenchment policy of the railroads in 1914 is illustrated by the annual report of the Pressed Steel Car Company made a few days ago, which showed earnings of $13,375,000 compared with $30.967,000 in the previous year. The *Railway Age Gazette,* which conducted an inquiry in July last to learn in what degree the railroads entering Chicago had reduced their working forces, has reported that before the outbreak of the war these railroads had reduced their rolls by 91,000 men, and it estimates that the railroads and the railroad supply companies were employing 200,000 fewer men than in 1913. Such a shrinkage of employment as this in one industry signifies a serious reduction in the purchasing power of the country. A canvass of important industries in New York City by the Mayor's Committee upon unemployment resulted in the conclusion that there were 200,000 more persons out of employment in this city than at the same date of the previous year.

During February the industrial situation has improved slightly and a more cheerful feeling is expressed. With the progress of spring there will be numerous openings for labor and as many of the transient foreign laborers will fail to come to this country this year it is predicted that unemployment will soon be very largely reduced. Indeed the prediction is made that if there is anything like a general industrial revival a shortage of labor will be experienced.

Shipbuilding is one branch of industry that has had a genuine revival. The reduction of tonnage resulting from the internement of the German and Austrian ships and the sinking of so many vessels and the demand for ships of United States registry, has filled every shipyard in this country (and in the world) with orders and they are working to capacity.

It is early for the building industry to make a showing, but reports are more encouraging than there has been reason to expect; the lumber industry is getting foreign orders and is more hopeful of home business, and more orders are in sight for structural steel. The steel corporation made a surprisingly good report of new business at the beginning of February.

The woolen goods industry is now busy, foreign competition having been reduced in this market and numerous war orders received. The cotton goods industry is disappointing, mills consuming less cotton in January than in January, 1914. The movement of cotton to foreign markets, however, is very good, over 5,000,000 bales having now been exported, which equals the common estimate made in August last for the whole crop year. The cotton manufacturing centers of England are now running at a fair rate, army contracts being a considerable factor. The world's consumption demand, however, is clearly lower, indicating a policy of economy everywhere. The price of cotton is very well sustained in southern markets at about eight cents. Interest centers now in the question whether exports to Germany will be cut off and in the acreage of the next crop. A large carry-over is of course inevitable.

The State of the Treasury.

The state of the Treasury, with relation to receipts and disbursements and the probability of a bond issue is interesting at this time. The excess of receipts over disbursements for the fiscal year to close of business, February 24th, was $103,865,-175.10, as compared with $49,821,853.72 for the same period in the last fiscal year. The war revenue act became effective December 1st, and the monthly deficits in December and January were considerably under the monthly average for the seven months, but the February deficit is above the average for the period. No additional revenues are in sight until the proceeds of the income tax are available, and from this little can be expected until the last of June. Meanwhile the available cash balance in the Treasury is working very low. On February 24th the net balance in the general fund was $42,325,957.71, but this included the following items which are not, in fact, available as a means of paying the current expenses of the Government:

Subsidiary silver coin	$25,720,295.36
Fractional Currency	106.05
Minor coin (nickles and cents)	2,553,456.15
Silver bullion for subsidiary coinage	3,875,555.01
	$32,149,412.57

The actual available balance, therefore, on that day was about $10,000,000, or not enough to cover the deficit for a month at the rate it has been running.

The corporation and personal income taxes yielded last year $71,381,274.74, nearly all of which was paid in the latter part of June. The personal income tax had applied to only ten months of the previous year, but doubts are entertained whether the proceeds for a full year will show any larger; since incomes in 1914 were probably smaller. In any event, however, the June income is not available

to pay running expenses in the meantime; the question is, can the Treasury make ends meet until June?

In arriving at the net cash balance in the general fund two items are included as liabilities which do not represent immediate demands, and it may be possible to devote a portion of the funds set apart for these purposes to tide the Treasury over for a time. One of these is the item of disbursing officers' balances, which on February 24, stood at $56,550,000. It may be possible to handle the various accounts on a considerably smaller sum than this. Deposits by national banks for the retirement of their notes are now merged with the general cash and stand at about $17,000,000. As the notes come in slowly this might be, in part, available for other payments.

It is evident, however, that the cash resources of the Treasury are very low, and the Secretary may find it advisable to take action to replenish them. Two courses are open to him, to wit: A sale of Panama Fifty-Year Three Per Cent. Bonds or One Year 3 Per Cent. Certificates of Indebtedness. The market for Government bonds has been strengthened recently by purchases for the Federal Reserve banks, but these banks prefer the issues that carry the circulation privilege. The bid price for the Three Per Cents. which do not have this privilege, is now 102, but the market is affected by the demand for tax-evasion purposes which occurs from March to June every year. There is little general demand for a three per cent. bond, but it is possible that a small issue of these Threes could be sold if offered as a popular loan. The most ready means of raising any sum up to $100,000,000 would be by an issue of Certificates of Indebtedness, as these would be a particularly desirable investment for the twelve Federal Reserve banks. They would afford employment for their idle funds and yet be available, by reason of the circulation privilege, as the basis of currency issues. They would have to be retired, however, within one year.

The monthly deficits since July 1, 1913, and the Treasury cash balance at the close of each month are shown below. It will be seen that deficits occurred in ten months of the fiscal year 1913-14, but that a surplus for the year was created by the income tax receipts in June. It will be observed that the large working balances last year made it possible to avoid borrowing, but the working balance no longer exists.

	FISCAL YEAR 1914-15		FISCAL YEAR 1913-14	
	Deficit for month	Cash Balance General Fund	Deficit for month	Cash Balance General Fund
July	$2,419,968.	$143,776,800.	$12,079,049.	$132,263,619.
August ..	22,270,763.	121,500,400.	5,018,158.	130,169,372.
September	9,482,196.	112,204,309.	3,794,505.	123,416,613.
October .	20,564,333.	91,639,975.	*1,503,899.	124,923,502.
November	15,138,132.	73,501,843.	5,457,391.	119,466,111.
December	6,731,169.	66,770,674.	7,611,793.	111,854,317.
January .	9,750,085.	57,020,589.	7,093,010.	104,761,267.
7 Months	$86,356,648.		$39,550,009.	
February	**$14,694,631.	$42,325,957.	$11,894,719.	$ 92,866,547.
March...			1,951,126.	90,915,421.
April....			10,677,905.	80,237,515.
May.....			6,086,502.	74,151,012.
June.....			*71,684,489.	145,835,502.
FISCAL YEAR			*$1,524,224.	

* Indicates excess of receipts over disbursements.
** February 24.

The Canadian Budget.

Our Canadian neighbors are struggling hopefully and resolutely with large problems. They have loaned the public credit for the construction of railways and used it liberally in the construction of extensive public works, all of which will doubtless pay out all right when the population has grown up to the facilities thus provided. They have come loyally to the support of the mother country in the war, and the expenditures upon this account are running into large figures. The Minister of Finance in his budget speech to the Dominion Parliament a few days ago, estimated the requirements of the government for the next fiscal year at $300,000,000 and the receipts from ordinary revenues at $120,000,000, leaving a deficit of $180,000,000. The expenditures on account of the war will be $100,000,000, and be borrowed in London. He proposes that $30,000,000 be provided by special taxes and the remaining $50,000,000 borrowed, no suggestion being offered as to how or where this loan will be placed. The Canadian papers intimate that New York may have a chance at it.

The Dominion bonded debt at the close of January, 1915, amounted to $331,000,000, besides which there were temporary loans of $48,000,000. The latter will be taken up by the permanent issues proposed but the total debt when the financing of the year is completed will be fully $500,000,000, or over $60 per capita for 8,000,000 people.

Speaking of the effects of the war upon Canada the Minister said:

"By far the most important factor has been the curtailment of our borrowings abroad. This has been the outstanding feature of the economic effect of the war upon Canada. Canada has been borrowing at the rate of from two to three hundred million dollars annually for some years past. For the six months preceding the war our loans abroad and principally in Great Britain aggregated two hundred million dollars, or over a million dollars a day.

"These borrowings represented the sale of securities by the Federal and Provincial Governments, by municipalities and by railway, public utility, industrial and financial corporations. For the most part the purpose of loans so effected was to provide funds for the construction of public undertakings, works and services, railways and industrial and other plants and establishments. The war at once cut off this stream of borrowed money and only recently have there been evidences of its resumption upon a greatly reduced scale. Until the war is over and for a considerable period afterwards it is not probable that monetary conditions will permit of the issue of securities even of the highest character other than for war purposes, in any such volume as that to which we have been accustomed in the past.

"This interruption of the influx of capital has necessarily meant marked curtailment, of expenditure upon undertakings, works and buildings in all parts of Canada with consequent reaction upon the industries, trades and businesses furnishing material and supplies therefor. The result has been a material slackening of general constructional activity, considerable unemployment and attendant diminished buying power on the part of the community. Commercial houses are exercising prudence in commitments, and the public generally are practising economy, that is to say, they are buying less, both of domestic and imported produce."

The manner in which loans create trade, and by which Great Britain has sustained her trade with the new countries is clearly illustrated by the Min-

ister's statement of Canadian imports in the last three years. He said:

"In 1912 the so-called adverse balance of trade against Canada was $225,000,000; in 1913, $300,000,000; in 1914, $180,000,000. From present indications it would appear that we shall to a large degree overtake this balance. In view of the decrease in our borrowings, which have accounted in large measure for our excess of imports, this condition is what we should naturally expect. Our exports will, it is to be hoped, so increase as to enable us, with such borrowings as may be obtained outside of Canada, to pay out any trade balance against us together with our interest maturing abroad without resort to gold exports.

"Dealing with what we may call uncontrollable expenditure, that is to say, expenditure necessary for the conduct of civil government and required to meet interest and other obligations of the Dominion, we cannot look forward to any reduction over the past year. The Dominion has large undertakings under contract for construction. Chief among these may be mentioned terminal and harbor works and improvements in our larger port cities, the completion of the National Transcontinental Railway and the Quebec Bridge, the Hudson Bay Railway and the Welland Canal."

The Bureau of Corporations.

With the inauguration of the new Federal Trade Commission, members of which have now been appointed, the Bureau of Corporations, Department of Commerce, will, by the terms of the Trade Commission Act, cease to exist and all pending investigations and proceedings will be continued by the Commission. All clerks and employees of the Bureau, all records and papers, and all unexpended appropriations for its support, are transferred to the Federal Trade Commission, which, with somewhat enlarged powers, assumes the functions of the Bureau. The latter has been in existence nearly twelve years, having been created by the act of Congress establishing the Department of Commerce and Labor in 1903.

The purpose in establishing the Bureau of Corporations was to obtain authoritative information concerning corporations engaged in interstate commerce other than those subject to the jurisdiction of the Interstate Commerce Commission. Many people were of the opinion then, as now, that publicity alone when the facts are properly vouched for, will eliminate most of the abuses that afflict the business world, holding that no business concern of importance can afford to persist in practices that offend the moral sense of the community, if everybody knows what they are doing. Moreover, it was urged that legitimate business would be relieved from misrepresentation and the public mind set at rest in cases of unwarranted attack by an official inquiry and statement. The Bureau accordingly was created, not as a prosecuting agency, but as an organization for investigation. In several instances, however, information obtained by the Bureau has been used by the Department of Justice.

The special investigations conducted by the Bureau covered the dressed beef industry, the transportation of petroleum and the petroleum industry, the grading and marketing of cotton, the tobacco industry, the International Harvester Corporation, the United States Steel Corporation, the lumber industry, the taxation of corporations in the various states, water transportation and water-power development in the United States. Exhaustive reports running from several hundred to several thousand pages each, have been made upon these subjects.

Perhaps no other piece of work by the Bureau has excited as much public interest as its first investigation, which was under the direction of Commissioner Garfield and into the beef industry, and the results in that case are especially noteworthy because they illustrate a certain inflexibility that is characteristic of governmental administration and regulation.

Investigation of The Packers.

By direction of a resolution adopted by the House of Representatives, the Bureau of Corporations made an investigation of the dressed beef industry, including an examination of the books of the principal packing companies, and March 3, 1905, published a report of 300 pages. It found that during the year ended June 30, 1903, the three leading companies, whose business was typical of the industry, slaughtered 2,017,816 cattle, for which they paid an average of $48.58 per head, and that the cost of operation and administration of the packing plants averaged $1.90 per head, making the total cost of the cattle and product $50.48 per head. The weight of beef derived from these cattle was equal to 55.68 per cent. of the live weight, and the average carcass sold for $39.32; the net value of by-products was $11.96 per head, making the total proceeds $51.28 per head. The final net profit was 80 cents per head. The investigations also covered the operations of the same plants for the year ended June 30, 1904, during which the average profits were found to be 82 cents per head.*

These profits could hardly be regarded as excessive, and nobody called them excessive, although a good many were incredulous as to the accuracy of the figures. The report was vigorously attacked, but the officials of the Bureau maintained that the investigation had been thorough and that the figures were substantially correct. The report explained that the small margin of profit was due to the natural conditions surrounding the industry saying, upon this point**:

"In most of the larger cities there are important establishments slaughtering from 10,000 to 40,000 cattle per year, which, while less efficient than the great western houses, are probably not at a great disadvantage in this respect. . . . ."

"Should the western packers try to obtain a much higher percentage of profit than they do at present, existing local slaughterers at all consuming points would tend to expand their business materially, and new concerns would spring into existence. The possibility of a rapid increase in competition of local slaughterers was illustrated during the packing house strike of the summer of 1904, when the shortage in the beef furnished by the western packers was, to a very considerable extent, made up by increased killing on the part of small concerns. . . . . "

"The business is not controlled by patents, secret processes, or monopoly of raw material, and the amount of capital necessary to provide even a system of several plants, with transportation lines and marketing facilities, is not so large as seriously to hinder new competition in case a very high margin of profit should be maintained by the present concerns. . . . . "

*Report of Commissioner of Corporations on the Beef Industry, 1905, page 260.

**The same, summary, pages 22, 23.

Garfield Report Confirmed.

As a matter of fact, the findings of the Garfield report were neither incredible nor surprising to the bankers who had been lending money to the packing companies for years. These companies had been showing to their shareholders and to their bankers, who were entitled to know the bottom facts of the business, annual profits around two per cent. upon their entire turnover, which included the various branches besides dressed beef. Since 1904 the business from year to year has shown about the same results. Since January 1st, 1915, the five largest companies in the industry, one of which has 21,000 stockholders, have submitted their annual reports. These five reports when combined show total gross sales of $1,184,121,449, and profits of $21,771,452, or 1.8 per cent. on the turnover. The combined capital of the companies at the beginning of the fiscal year under review, together with surplus, which is properly included as invested capital, was $292,000,000. The earnings upon the investment amounted, therefore, to 7.4 per cent.

It should be added that in order to carry on the business upon this scale and make the profits that are shown, these companies employed a large amount of capital besides their own. Their bonded debts at the beginning of the year aggregated to $65,800,000, and their bills payable, $108,884,000.

Some of the profits must be allowed as accruing upon this borrowed money, which comprised about 37 per cent. of the total capital employed in the business. The Garfield report mentioned this feature of the business and, without altering the usual method of bookkeeping, expressed the opinion that in order to have a true statement of the percentage of profit upon capital employed, interest payments should be omitted from expenses and the profit percentage calculated upon the sum total of owned and borrowed capital. This would reduce the profit showing upon the companies' own capital.

There is, then, every reason to believe that the Garfield report was substantially correct. If it is to be treated as untrustworthy it would be pertinent to ask why more money should be spent on investigations, but accepting it as trustworthy it shows a vast industry engaged in handling a common food product with scientific economy and efficiency and upon a very small margin of profit. More than one hundred articles of commerce are now made from parts of a carcass that a few years ago were thrown away, not only worthless but a nuisance to the community.

The average profit upon dressed beef last year, computed at the rate of the combined profits on all sales, was about one quarter of a cent per pound, a fact inconceivable to many people because they do not appreciate that a very small percentage of profit upon an immense business may yield a large profit in the aggregate. Nor is there proper appreciation of the fact that service of this kind is more advantageous to the public than a system of unorganized and unscientific production in which the profits are so dissipated and wasted that nothing is left over for anybody.

Criminal Prosecution.

Standing by itself, as the result of an investigation by the government, the Garfield report, although it ran counter to preconceived opinion, might have had some influence in clearing up popular misconceptions on the subject, but another department of the government went on investigating. The lawyers of the department of justice were not interested in the margin of profits, leaving that to Commissioner Garfield; they were interested in whether or not there had been a conspiracy affecting prices, and they did not regard any of the foregoing facts as pertinent to their inquiry. This illustrates how the lay mind differs in its methods from the legal or official mind. The layman would be inclined to think that the essential thing was whether the margin between live cattle and dressed beef was as small as it could reasonably be and if he found in the affirmative to accept this as sufficient proof that no very effective or at least harmful conspiracy existed. But the essential question to an official charged with the enforcement of a law is whether the law has been violated, and the department of justice found some evidence that the packers had been conferring together and were operating with some degree of harmony and cooperation. It perhaps might be expected that concerns doing a business of such magnitude in perishable products along side of each other would recognize each other's existence and take some account of what each other was doing; but there is a point, undoubtedly, at which conferences and cooperation become a conspiracy under the law, and it is the business of the department of justice to see that this point is not reached. The leading Chicago packers were prosecuted in 1905-06, but the Court held that they had obtained immunity by reason of the information they had given to the Bureau of Corporations. In 1910 the department of justice again succeeded in obtaining indictments, a joint trial was had and the case went to a jury with the result that the defendants were acquitted.

In reviewing the experience of the packers under government supervision and prosecution we only desire to indicate some of the difficulties that attend upon the exercise of such authority. Certainly every government official should do his sworn duty as he sees it, and in this case it is not questioned that the officials of the bureau of corporations and of the department of justice all acted upon this principle, but certainly the proceedings as a whole were confusing and unsatisfactory. The layman, again, would be disposed to ask whether if the findings of Commissioner Garfield were correct, it was possible for any beneficial results to be obtained by prosecuting the packers?

Public Interest in the Truth.

If those findings were substantially correct, as well informed people believe, certainly a genuine service would have been rendered by having them go to the public with the authority of the government behind them. As it was, they were discredited to the public by the activities of another department of the government, although this other department disclaimed any knowledge of or interest in the matter of profits, the very feature about which the public was most concerned.

The private interests of the packing companies were not the chief consideration in these proceedings. It is important to the public to know the truth about such contentions, and disquieting to have a large portion of the public believing that common necessaries of life are maintained at exorbitant prices by combinations of capital which are able to defeat the efforts of the department of justice. There ought to be some means by which after all the expenditure the government has made upon the packing business the very truth about it would be authoritatively made known.

Perhaps the new Federal Trade Commission, which by its constitution, promises to be a body of more judicial character than the Bureau of Corporations, will be able to speak with greater authority. There will be no dissent from the proposition that the laws of the country should be enforced and that the public should be protected from piratical, extortionate and unfair practices in trade, but what is most of all needed is that the truth, the full truth and nothing but the truth about business affairs in the United States shall be made known to the public by some agency that will command its confidence. If the Trade Commission shall prove to be such an agency of mediation and explanation between business men and the general public it will justify its creation.

The Cotton Pool.

The $135,000,000 cotton pool has been practically dissolved without call for any payments under the subscriptions. Pursuant to the terms of the offer to the public, loan applications were closed February 1st, and the total of applications was so small that they were otherwise taken care of. The following letter was sent to the subscribers:

"Dear Sirs:

"The Cotton Loan Fund has been availed of by borrowers only to the extent of $28,000. In order to cause the Class "A" subscribers as little inconvenience as possible, the Cotton Loan Committee has decided that, for the present, it will not issue a call for the amount loaned, and has, therefore, as authorized by the Plan, upon the security of the notes and collateral received by it, borrowed sums sufficient to cover the loans made.

"If all of the loans are paid, it will probably be unnecessary to make a call upon the Class "A" subscribers. We beg to remind subscribers, however, that they remain liable upon their subscriptions to the extent of the sums loaned, payment of which the committee must reserve the right to call at any time.

"While the 3% Guarantee Fund contributed by the borrowers to cover expenses and losses was entirely insufficient to meet the expenses of the Cotton Loan Committee, the application thereof to such expenses would have made the cost of such loan to the borrowers so much greater than anticipated that, with the sanction of the Central Committee, the Cotton Loan Committee has returned to the borrowers the amounts contributed by them. The members of the Cotton Loan Committee have, however, relieved the Central Committee of any embarrassment in this connection by each member thereof assuming his own expenses, which, in the case of the New York members, has involved the entire expense connected with preparations for and the detailed administration of the Fund. Messrs. Rushmore, Bisbee, and Stern, the counsel to the Cotton Loan Committee, have made no charge for their services and, so far as this Committee is advised, all state and local committees have borne their own expenses.

"Very truly yours,

"CENTRAL COMMITTEE,

"By W. G. McAdoo, Chairman."

The Class "A" subscriptions to the Cotton Loan Fund aggregated $101,036,100, and were made by 487 banks, 185 firms and 17 individuals, in amounts ranging from $100 to $5,000,000, representing 64 cities located in 19 states and the District of Columbia. The balance of the $135,000,000 which it was contemplated to raise was to have been supplied by the Southern banks applying for the funds.

Federal Reserve System.

Federal Reserve Board and the officers and directors of the Federal Reserve banks are engaged upon the various problems that must be worked out in order to bring the new system into complete and successful operation.

The most important regulation adopted during the last month is that relating to acceptances. It gives much latitude to the banks in re-discounting and purchasing this class of paper, and they may be expected to operate under it as freely as may be practicable, but the amount of available paper is comparatively small. The banks have been gradually increasing their income-producing assets, the total for the system on February 19th being $32,636,000, as against $10,848,000, on December 31st. It cannot be, however, too often said or too strongly emphasized that these banks were never intended for active service in a money market like the present one. No additional banking facilities are needed in this country at the present time, but nobody is so foolish as to believe that conditions will always remain as at present. Confidence will come again, people will want to use their bank balances and their credit, and the supply of credit will be taken up. When that time comes, everybody will feel more secure because of the reserve resources of these institutions. It would be violating the principle upon which these banks were established for them to crowd their funds into use and exhaust their powers in a time like this. If any criticism is pertinent to the present situation, it is that with fewer banks, or with a single organization and branches, the system would have been less expensive.

It promises well for the system that so many conferences are being held at Washington in which all the banks of the system are represented. The farther everybody gets away from the idea of twelve banks, and the more completely the idea of one bank is lived up to, the more effective the system will be. The important problem of clearing country checks is not yet disposed of, although the subject of numerous conferences. It is likely to be dealt with experimentally and by stages in order that full opportunity may be given everybody to study it and adapt themselves to the policy adopted. The end to be sought undoubtedly is that of clearing the payments of the country in the most expeditious and economical manner, and that the necessary costs shall be charged as nearly as practicable to the business to which they belong. It can scarcely be questioned, however, that some improvement is possible through the agency of the new system upon the old manner of handling country checks.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS FEB. 26, 1915.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certificates	15,724	98,991	15,262	18,431	8,845	3,613	33,159	10,141	10,185	10,642	7,540	16,376	248,909
Legal tender notes. Silver certif's and Sub. coin...	2,970	15,334	5,567	704	50	1,914	304	975	45	558	657	7	29,085
Total................	18,694	114,325	20,829	19,135	8,895	5,527	33,463	11,116	10,230	11,200	8,197	16,383	277,994
Bills discounted and loans	308	2,230	511	772	5,550	5,289	831	647	319	359	2,574	1,079	20,469(c)
Investments..............	626	6,903	1,565	920	37		4,755	55	1,050	515		991	17,417
Due from other F. R. Banks net...................		8,946	313	304			5,596	4,364					8,088(b)
All other resources........	311	330	663	125	10	17	2,930	1,384	157	443	958	437	7,765
TOTAL RESOURCES.....	19,939	132,734	23,881	21,256	14,492	10,833	47,575	17,566	11,756	12,517	11,729	18,890	331,733
LIABILITIES													
Reserve Deposits..........	16,093	126,096	19,730	17,048	8,362	5,400	43,172	15,715	8,793	9,559	7,434	12,934	290,336
Due to other F. R. Banks net (b)................	612				1,435	1,890			1,334	1,103	1,704	3,357	
Federal Reserve notes in circulation—Net Amt....				177	2,513	1,966					672		5,328(a)
Capital Paid in............	3,234	6,638	4,151	4,031	2,182	1,577	4,403	1,851	1,629	1,855	1,919	2,599	36,069
TOTAL LIABILITIES.....	19,939	132,734	23,881	21,256	14,492	10,833	47,575	17,566	11,756	12,517	11,729	18,890	331,733

(a) Total Reserve notes in circulation, 26,172. After deducting gold and lawful money in hands of Federal Reserve Agents, 20,844 for retirement of outstanding notes, the net liabilities of Reserve Banks upon outstanding notes, amount to 5,328.

(b) After deduction of items in transit between Federal Reserve Banks, 8.088 the G ld Reserve against Net Liabilities is 86.6% and the cash reserve is 96.7%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 97.7%.

(c) Maturities of bills discounted and loans: 30 days, 7,656; 60 days, 7,102; other maturities, 5,711; Total: 20,469.

The Comptroller's Next Call.

The Comptroller of the Currency has sent directions to the cashiers of all national banks regarding the form of report which is to be made in response to the next bank call. In view of the fact that the changes involved are in part the direct result of the inauguration of the Federal Reserve System the following copy of a letter is published:

To the Cashier:

There are inclosed THREE blank reports of condition and two publisher's certificates to be used at the time of the next call for a statement of condition of your bank.

In addition to forwarding a report to this office, you are requested to fill out and send one copy, in sealed mail, to the FEDERAL RESERVE AGENT of the Federal Reserve Bank of your district.

Your attention is called to the following items:

On face of the Report:

RESOURCES.

No. 4. "U. S. BONDS PLEDGED TO SECURE U. S. AND POSTAL DEPOSITS."

District of Columbia or any Territory or insular possession bonds must NOT be included therein, but must be shown under other bonds pledged.

LIABILITIES.

No. 9g. "STATE, COUNTY OR MUNICIPAL DEPOSITS SECURED BY ITEM 8 OF 'RESOURCES.'"

Only deposits which are secured by a pledge of bonds or other securities as collateral should be reported here.

On back of Report:

"DRAFTS OR BILLS OF EXCHANGE, INCIDENT TO THE IMPORTATION OR EXPORTATION OF GOODS, 'ACCEPTED' UNDER SECTION 13 OF THE FEDERAL RESERVE ACT."

This refers to Drafts or Bills of Exchange ACCEPTED by your bank and outstanding as of the date of your next statement to the Comptroller.

"NUMBER OF DEPOSITORS"

Space has been provided for reporting the number of "demand" and number of "time" depositors to whom interest is and is not allowed.

"LIABILITIES OF OFFICERS AND DIRECTORS," ETC.

Item 7 of this schedule has been changed to show the number of shares as registered in names of officers and directors on your stock ledger, and the number of shares ACTUALLY OWNED, regardless of the amount indicated on stock ledger. Columns 1, 2, and 7 must be complete, whether officers or directors may be indebted to bank or not.

Respectfully,

(Signed) JNO. SKELTON WILLIAMS,
Comptroller.

Acceptances on a Favored Basis.

The Federal Reserve Board has put the seal of its favor upon acceptances, by authorizing several of the reserve banks to discount them at rates ranging in the discretion of the management from two to four per cent, although the lowest rate authorized for other forms of commercial paper is four per cent. The Board avows its purpose plainly, saying that it believes it to be in accordance with the spirit of the act to accord preferential treatment to acceptances, and also that this regulation is to be regarded as a first step and that other regulations to the same purpose may be expected to follow. The ruling applies only to bankers' acceptances of which the supply is limited, but the strong endorsement given by the Board to this form of paper suggests that a preferential rate may be granted to domestic acceptances over the promissory note. Although member banks are not authorized to accept drafts in the domestic trade they can now discount them and rediscount them at the reserve banks upon the same terms as ordinary one name commercial paper. If a preferential rate was granted to domestic acceptances private banking houses and state banks and trust companies would probably take up the function of accepting, a business largely developed in England and on the Continent.

Federal Reserve Board Regulations and Circulars.

The following official documents of general interest have been issued by the Federal Reserve Board in Washington since the publication of our last bulletin:

Increase and Decrease of Capital Stock of Federal Reserve Banks.

WASHINGTON, *January 28, 1915.*

Circular No. 9.

Section 5 of the Federal Reserve Act provides that—

The capital stock of each Federal Reserve Bank shall be divided into shares of $100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. * * * When the capital stock of any Federal Reserve Bank shall have been increased either on account of the increase of capital stock of member banks or on account of the increase in the number of member banks, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing the increase in capital stock, the amount paid in, and by whom paid. When a member bank reduces its capital stock it shall surrender a proportionate amount of its holdings in the capital of said Federal Reserve Bank and when a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve Bank and be released from its stock subscription not previously called. In either case the shares surrendered shall be canceled and the member bank shall receive in payment therefor, under regulations to be prescribed by the Federal Reserve Board, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of one per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve Bank.

Section 6 provides:

If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal Reserve Bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of one per centum per month from the period of last dividend, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal Reserve Bank, and the balance, if any, shall be paid to the receiver of the insolvent bank. Whenever the capital stock of a Federal Reserve Bank is reduced, either on account of a reduction in capital stock of any member bank or of the liquidation or insolvency of such bank, the board of directors shall cause to be executed a certificate to the Comptroller of the Currency showing such reduction of capital stock and the amount repaid to such bank.

Pursuant to these provisions of the statute the accompanying regulations have been adopted by the Federal Reserve Board.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

INCREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS.

WASHINGTON, *January 28, 1915.*

Regulation G.

Whenever the capital stock of any Federal Reserve Bank shall be increased by new banks becoming members, or by the increase of capital or surplus of any member bank and the allotment of additional capital stock to such bank, the board of directors of such Federal Reserve Bank shall certify such increase to the Comptroller of the Currency on Form 58, attached to and made a part of this regulation.

DECREASE OF CAPITAL STOCK OF FEDERAL RESERVE BANKS.

I. Whenever a member bank reduces its capital stock or surplus, and, in the case of reduction of its capital, such reduction has been approved by the Federal Reserve Board in accordance with the provisions of section 2 of the Federal Reserve Act, it shall file with the Federal Reserve Bank of which it is a member an application on Form 60, attached to and made a part of this regulation. When this application has been approved, the Federal Reserve Bank shall take up and cancel the receipt issued to such bank for cash payments made on its subscription and shall issue in lieu thereof a new receipt after refunding to the member bank the proportionate amount due such bank on account of the subscription canceled. The receipt so issued shall show the date of original issue, so that dividends may be calculated thereon.

II. Whenever a member bank shall be declared insolvent and a receiver appointed by the proper authorities, the Federal Reserve Bank, upon being satisfied by copy of the commission issued by the Comptroller of the Currency or order of court appointing such receiver, of his right to act as such, shall adjust accounts between such receiver and such Federal Reserve Bank by applying to the indebtedness due by the failed bank any cash payments made by it on its stock subscription or accrued dividends thereon, and by paying to such receiver any balance that may be due after making such deductions, taking up and canceling the receipts for such cash payments.

III. In case of voluntary liquidation of a member bank, the Federal Reserve Bank shall require copies of all necessary resolutions of the board of directors and stockholders and such other papers as may be necessary to establish the right of the liquidating agent to receive and receipt for balances due the liquidating bank, and shall adjust with such liquidating bank the accounts between it and the Federal Reserve Bank by applying the cash-paid subscriptions and accrued dividends to any indebtedness due to said Federal Reserve Bank, and shall take up and cancel any receipts issued for such payments, paying to the liquidating agent all balance due such bank.

IV. Whenever the stock of a Federal Reserve Bank shall be reduced in the manner provided in Paragraphs I, II, or III of this regulation the board of directors of such Federal Reserve Bank shall, in accordance with the provisions of section 6, file with the Comptroller of the Currency a certificate of such reduction on Form 59, hereto attached and made a part of this regulation.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

Certain forms of applications for the increase, decrease or surrender of stock accompany this regulation. These forms are of interest only to the Federal Reserve banks and they are not reprinted.

Bankers' Acceptances.

WASHINGTON, *February 8, 1915.*

Circular No. 5.

"Acceptances" are dealt with in the Federal Reserve Act in two different sections—sections 13 and 14. Section 13 deals with the "acceptance" as one of the forms of paper in the discount of which Federal Reserve Banks may engage, restricting the discount of acceptances to such as bear the indorsement of a member bank. Section 14 invests the Federal Reserve Banks, under regulations to be prepared by the Federal Reserve Board, with power to engage in open-market operations, of which the "banker's acceptance" is one of the most important.

Careful study has led the Federal Reserve Board to the conclusion that, at any rate in the first stages, so far as practicable, priority should be given to operations under section 13. The acceptance is still in its infancy in the field of American banking. How rapid its development will be cannot be foretold; but the development itself is certain. Opportunity is given by the Federal Reserve Act to assist the movement in this new direction; the present regulations are to be regarded as a first step and will be extended as circumstances and a reasonable regard for

the other uses and needs of the credit facilities of the Federal Reserve System may warrant.

It is believed that it would unduly restrict the development of the acceptance business to keep it altogether confined within the provisions of section 13, which require that acceptances, in order to be eligible for rediscount at a Federal Reserve Bank, must bear the indorsement of a member bank; particularly in view of the further fact that the law limits the amount of acceptances which may be taken with the indorsement of a member bank to 50 per centum of its paid-in capital and surplus. Having found it necessary to extend the scope of dealings in acceptances beyond these limits, the Board has exercised the authority conferred upon it by section 14, and has formulated regulations covering the purchase of acceptances without invariably requiring the indorsement of a member bank.

The acceptance is the standard form of paper in the world discount market, and both on this account and because of its acknowledged liquidity universally commands a preferential rate. By reason of its being readily marketable it is widely regarded as a most desirable paper in the secondary reserves of banks and will help to provide an effective substitute for the "call loan." Its growth, however, will depend upon the ability of the American market to adjust its rates effectively to those prevailing in other markets for paper of this class.

Recognizing these facts, the Federal Reserve Board has determined to allow the Federal Reserve Banks latitude in fixing rates for acceptances: Federal Reserve Banks may, from time to time, submit for the approval of the Board maximum and minimum rates within which they desire to be authorized to deal in acceptances: within such limits, and subject to such modifications as may be imposed by the Board, Federal Reserve Banks will be allowed to establish the rates at which they will deal in acceptances.

The Board believes it to be in accordance with the spirit of the Act to accord preferential treatment to acceptances bearing the indorsement of member banks, offered for rediscount under section 13—even to the point of allowing lower rates for such acceptances, inasmuch as, under the terms of this section, such acceptances are available as collateral against the issue of Federal reserve notes; and the Board will sanction a slight preferential in favor of acceptances bearing the indorsement of member banks.

When acceptances bearing the indorsement of member banks are not obtainable in adequate amount or upon satisfactory terms, Federal Reserve Banks desiring to purchase acceptances should restrict themselves, as far as possible, to such acceptances as bear some other responsible signature (other than that of the drawer and the acceptor), and preferably that of a bank or banker.

BANKERS' ACCEPTANCES.

WASHINGTON, *February 8, 1915.*

I. DEFINITION.

Regulation D.

In this regulation the term "acceptance" is defined as a draft or bill of exchange drawn to order, having a definite maturity and payable in dollars, in the United States, the obligation to pay which has been *accepted* by an acknowledgment written or stamped and signed across the face of the instrument by the party on whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity according to the tenor of such draft or bill without qualifying conditions.

II. STATUTORY REQUIREMENTS UNDER SECTIONS 13 AND 14.

Section 13 of the Federal Reserve Act provides that—

(*a*) Any Federal Reserve Bank may discount acceptances—

(1) Which are based on the importation or exportation of goods;

(2) Which have a maturity at time of discount of not more than three months; and

(3) Which are indorsed by at least one member bank.

(*b*) The amount of acceptances so discounted shall at no time exceed one-half of the paid-up capital stock and surplus of the bank for which the rediscounts are made.

(*c*) The aggregate of notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Section 14 of the Federal Reserve Act permits Federal Reserve Banks, under regulations to be prescribed by the Federal Reserve Board, to purchase and sell in the open market bankers' acceptances, with or without the indorsement of a member bank.

III. "ELIGIBILITY."

The Federal Reserve Board has determined that, until further order, to be eligible for discount under section 13, by Federal Reserve Banks, at the rates to be established for bankers' acceptances:

(*a*) Acceptances must comply with the provisions of Paragraph II (*a*), (*b*), (*c*) hereof;

(*b*) Acceptances must have been made by a member bank, nonmember bank, trust company, or by some private banking firm, person, company, or corporation engaged in the business of accepting or discounting. Such acceptances will hereafter be referred to as "bankers'" acceptances;[1]

(*c*) A bankers' acceptance must be drawn by a commercial, industrial, or agricultural concern (that is, some person, firm, company, or corporation), directly connected with the importation or exportation of the goods involved in the transaction in which the acceptance originated;

(*d*) A bankers' acceptance must bear on its face, or be accompanied by evidence in form satisfactory to a Federal Reserve Bank, that it originated in an actual bona fide sale or consignment involving the importation or exportation of goods. Such evidence may consist of a certificate on or accompanying the acceptance to the following effect:

> This acceptance is based upon a transaction involving the importation or exportation of goods. Reference No. ———. Name of acceptor: ——— ———;

(*e*) Bankers' acceptances, other than those of member banks, shall be eligible only after the acceptors shall have agreed in writing to furnish to the Federal Reserve Banks of their respective districts, upon request, information concerning the nature of the transactions against which acceptances (certified or bearing evidence under III (*d*) hereof) have been made;

(*f*) A bill of exchange accepted by a "banker" may be considered as drawn in good faith against "actually existing values," under II (*c*) hereof, when it is secured by a lien on or by transfer of title to the goods to be transported;

(*g*) Except in so far as they may be secured by a lien on or by transfer of the title to the goods to be transported, the bills of any person, firm, company, or corporation, drawn on and accepted by any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, and discounted by a Federal Reserve Bank, shall at no time exceed in the aggregate a sum equal to five per centum of the paid-in capital of such Federal Reserve Bank;

(*h*) The aggregate of acceptances of any private banking firm, person, company, or corporation (other than a bank or trust company) engaged in the business of discounting or accepting, discounted or purchased by a Federal Reserve Bank, shall at no time exceed a sum equal to twenty-five per centum of the paid-in capital of such Federal Reserve Bank.

[1] Drafts and bills of exchange eligible for rediscount under section 13, other than "bankers'" acceptances, have been dealt with by Regulation B, series of 1915.

To be eligible for purchase by Federal Reserve Banks under section 14, bankers' acceptances must comply with all requirements and be subject to all limitations hereinbefore stated, except that they need not be indorsed by a member bank: *Provided, however,* That no Federal Reserve Bank shall purchase the acceptance of a "banker" other than a member bank which does not bear the indorsement of a member bank, unless it has first secured a satisfactory statement of the financial condition of the acceptor in form to be approved by the Federal Reserve Board.

IV. POLICY AS TO PURCHASES.

While it would appear impracticable to fix a maximum sum or percentage up to which Federal Reserve Banks may invest in bankers' acceptances, both under section 13 and section 14, it will be necessary to watch carefully the aggregate amount to be held from time to time. In framing their policy with respect to transactions in acceptances, Federal Reserve Banks will have to consider, not only the local demands to be expected from their own members, but also requirements to be met in other districts. The plan to be followed must in each case adapt itself to the constantly varying needs of the country.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

National Banks as Executors and Trustees.

WASHINGTON, *February 15, 1915.*

Circular No. 10.

The Federal Reserve Board is empowered by paragraph k of section 11 of the Federal Reserve Act to grant by special permit to national banks the right to act as trustee, executor, administrator, or registrar of stocks and bonds where the exercise of such powers is not in contravention of State laws. In the exercise of such power, the Board issues herewith Regulation H covering such special permits.

The Board will from time to time modify and supplement its regulations on this subject as experience may dictate.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

NATIONAL BANKS AS EXECUTORS AND TRUSTEES.

WASHINGTON, *February 15, 1915.*

Regulation H.

I. STATUTORY PROVISIONS.

The Federal Reserve Act provides:

"SEC. 11. The Federal Reserve Board shall be authorized and empowered:

"(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds, under such rules and regulations as the said Board may prescribe."

II. APPLICATIONS.

1. A national bank desiring to exercise any or all of the privileges authorized by section 11, subsection (k), of the Federal Reserve Act, shall make application to the Federal Reserve Board on a form approved by said Board (Form No. 61). Such application shall be forwarded by the applying bank to the Chairman of the Board of Directors of the Federal Reserve Bank of its district, and shall thereupon be transmitted to the Federal Reserve Board with his recommendations.

2. There shall be attached to each application a statement of the character and extent of the privileges which the applying bank desires to exercise under the following headings:

(a) Trustee of personal trusts.
(b) Trustee of corporate trusts.
(c) Administrator of personal estates.
(d) Executor of wills.
(e) Registrar of stocks.
(f) Registrar of bonds.

3. Each applicant shall, upon request, furnish copies of the laws of the State in which it is located bearing upon the exercise of such powers in force at the time application is made.

III. SEPARATE DEPARTMENTS.

Every national bank permitted to act under this section shall establish a separate trust department, and shall place such department under the management of an officer or officers, whose duties shall be prescribed by the board of directors of the bank.

IV. PROVISION FOR KEEPING TRUST FUNDS.

The funds, securities, and investments held in each trust shall be held separate and distinct from the general funds and securities of the bank, and separate and distinct one from another. The ledgers and other books kept for the trust department shall be entirely separate and apart from the other books and records of the bank.

V. EXAMINATIONS.

Examiners appointed by the Comptroller of the Currency or designated by the Federal Reserve Board will hereafter be instructed to make thorough and complete audits of the cash, securities, accounts, and investments of the trust department of every bank at the same time that examination is made of the banking department.

VI. CONFORMITY WITH STATE LAWS.

Nothing in these regulations shall be construed to give to a national bank doing business as trustee, executor, administrator, or registrar of stocks and bonds under section 11 (k) of the Federal Reserve Act any rights or privileges in contravention of the laws of the State in which the bank is located.

VII. REVOCATION OF PERMITS.

The Federal Reserve Board reserves the right to revoke permits granted under these regulations in any case where in the opinion of the Board a bank has wilfully violated the provisions of these regulations or the laws of any State relating to the operations of such bank when acting as trustee, executor, administrator, or registrar of stocks and bonds.

VIII. CHANGES IN RULES.

These regulations are subject to change by the Federal Reserve Board; provided, however, that no such change shall prejudice obligations undertaken in good faith under regulations in effect at the time the obligation was assumed.

CHARLES S. HAMLIN,
Governor.

H. PARKER WILLIS,
Secretary.

Discount Rates on February 26th.

The rates in force on February 26th, at the different Federal Reserve Banks were as follows:

Class of Paper	Boston	New York	Philadelphia	Cleveland
30 days...	4	4	4	4
60 days...	4	4	4	4
90 days...	4½	4	4½	4½
Longer....		5	5	5
	Richmond	Atlanta	Chicago	St. Louis
30 days...	4½	4	4	4
60 days...	4½	4	4	4
90 days...	4½	4½	4½	4½
Longer....	5	4½	5	5½
	Minneapolis	Kansas City	Dallas	San Francisco
30 days...	4	4	4	4
60 days...	4½	4	4	4
90 days...	5	4½	4½	4½
Longer....	5½	5½	5½	6

The rate for acceptances in Boston, New York, Chicago and Minneapolis are announced by the Federal Reserve Board as—minimum, 2%—maximum, 4%.

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